

**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MARSHALL COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$14,728,479 as of June 30, 2004. The fiscal court had unrestricted net assets of \$4,394,413 in its governmental activities as of June 30, 2004, with total net assets of \$14,643,570. In its enterprise fund, total net cash and cash equivalents were \$84,909 with total net assets of \$84,909. The fiscal court's discretely presented component unit had net assets of \$1,570,160 as of June 30, 2004. The discretely presented component unit had cash and cash equivalents of \$331,475. The fiscal court had total debt principal as of June 30, 2004 of \$7,687,835 with \$235,000 due within the next year.

Deposits:

The fiscal court and component unit's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Marshall County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marshall County Refuse Disposal District, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marshall County Refuse Disposal District, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Marshall County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based upon our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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The county implemented Governmental Accounting Standards Board Statements 33, 34, and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marshall County, Kentucky's basic financial statements. The accompanying supplementary information, and combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 6, 2005 on our consideration of Marshall County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 6, 2005

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Mike Miller	County Judge/Executive
Jerry English	Magistrate
Gordon Hargrove	Magistrate
Jerome Hicks	Magistrate

Other Elected Officials:

Jeff Edwards	County Attorney
Roger Ford	Jailer
Dan Duke	County Clerk
Carol Fisk	Circuit Court Clerk
Terry Anderson	Sheriff
Ann Riley	Property Valuation Administrator
Mitchell Lee	Coroner

Appointed Personnel:

Tim York	County Treasurer
Angie Murphy	Occupational Tax Collector
Emily Martin	Finance Officer
Gary Atkins	Road Supervisor
Marsha Penny	911 Administrator

MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government			Component Unit
	Governmental	Business-Type		Marshall County
	Activities	Activities	Totals	Refuse Disposal District
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 5,411,365	\$ 84,909	\$ 5,496,274	\$ 331,475
Investments	676,386		676,386	
Notes Receivable	5,000		5,000	
Total Current Assets	6,092,751	84,909	6,177,660	331,475
Noncurrent Assets:				
Notes Receivable	26,000		26,000	
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvement:	1,847,714		1,847,714	709,626
Buildings	11,573,153		11,573,153	132,248
Vehicles and Equipment	1,753,457		1,753,457	415,721
Infrastructure Assets - Net of Depreciation	1,038,330		1,038,330	
Total Noncurrent Assets	16,238,654		16,238,654	1,257,595
Total Assets	22,331,405	84,909	22,416,314	1,589,070
LIABILITIES				
Current Liabilities:				
Bonds Payable	235,000		235,000	
Payroll Liabilities				18,910
Total Current Liabilities	235,000		235,000	18,910
Noncurrent Liabilities:				
Bonds Payable	7,345,000		7,345,000	
Financing Obligations	107,835		107,835	
Total Noncurrent Liabilities	7,452,835		7,452,835	
Total Liabilities	7,687,835		7,687,835	18,910
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	8,524,819		8,524,819	1,257,595
Restricted For:				
Capital Projects	1,707,002		1,707,002	
Debt Service	17,336		17,336	
Unrestricted	4,394,413	84,909	4,479,322	312,565
Total Net Assets	\$ 14,643,570	\$ 84,909	\$ 14,728,479	\$ 1,570,160

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,920,585	\$ 119,981	\$ 256,745	\$
Protection to Persons and Property	2,114,920	852,484	410,901	161,219
General Health and Sanitation	472,792	8,031		
Social Services	461,308	501,131		
Recreation and Culture	543,930		16,563	2,000
Roads	1,976,172	36,061	278,223	1,361,770
Interest on Long-Term Debt	419,759	10,943	489,466	
Capital Projects	95,900			
Total Governmental Activities	11,005,366	1,528,631	1,451,898	1,524,989
Business-type Activities:				
Jail Canteen Fund	5,975			
Total Business-type Activities	5,975			
Total Primary Government	\$ 11,011,341	\$ 1,528,631	\$ 1,451,898	\$ 1,524,989
Component Unit:				
Marshall County Refuse Disposal Distri	\$ 1,638,413	\$	\$ 43,768	\$
Total Component Unit	\$ 1,638,413	\$ 0	\$ 43,768	\$ 0

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

In Lieu of Tax Payments

Excess Fees

Legal Process

Miscellaneous Revenues

Interest Earned

Transfer from Fiscal Court

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Revenues) Expenses and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Marshall County Refuse Disposal District
\$ (4,543,859)	\$	\$ (4,543,859)	\$
(690,316)		(690,316)	
(464,761)		(464,761)	
39,823		39,823	
(525,367)		(525,367)	
(300,118)		(300,118)	
80,650		80,650	
(95,900)		(95,900)	
(6,499,848)		(6,499,848)	
	(5,975)	(5,975)	
	(5,975)	(5,975)	
\$ (6,499,848)	\$ (5,975)	\$ (6,505,823)	\$ 0
			\$ (1,594,645)
			\$ (1,594,645)
1,136,624		1,136,624	
158,441		158,441	
249,476		249,476	
4,643,546		4,643,546	1,253,053
448,854		448,854	
345,140		345,140	
20,702		20,702	
238,927	10,624	249,551	4,121
95,723	84	95,807	2,079
			400,000
7,337,433	10,708	7,348,141	1,659,253
837,585	4,733	842,318	64,608
13,805,985	80,176	13,886,161	1,505,552
\$ 14,643,570	\$ 84,909	\$ 14,728,479	\$ 1,570,160

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Occupational Tax Fund	Occupational Tax Administrator Fund
ASSETS					
Cash and Cash Equivalents	\$ 957,546	\$ 383,969	\$ 76,640	\$ 120,793	\$ 2,107,038
Investments					
Total Assets	<u>\$ 957,546</u>	<u>\$ 383,969</u>	<u>\$ 76,640</u>	<u>\$ 120,793</u>	<u>\$ 2,107,038</u>
FUND BALANCES					
Unreserved:					
General Fund Type	\$ 957,546	\$	\$	\$	\$
Special Revenue Fund Types		383,969	76,640	120,793	2,107,038
Capital Projects Fund Type					
Debt Service Fund Type					
Total Fund Balances	<u>\$ 957,546</u>	<u>\$ 383,969</u>	<u>\$ 76,640</u>	<u>\$ 120,793</u>	<u>\$ 2,107,038</u>

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 1,047,952	\$ 717,427	\$ 5,411,365
17,336	659,050		676,386
<u>\$ 17,336</u>	<u>\$ 1,707,002</u>	<u>\$ 717,427</u>	<u>\$ 6,087,751</u>
\$	\$	\$	\$ 957,546
		717,427	3,405,867
	1,707,002		1,707,002
<u>17,336</u>	<u></u>	<u></u>	<u>17,336</u>
<u>\$ 17,336</u>	<u>\$ 1,707,002</u>	<u>\$ 717,427</u>	<u>\$ 6,087,751</u>

Total Fund Balances	\$ 6,087,751
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	20,994,266
Accumulated Depreciation	(4,781,612)
Notes Receivable	31,000
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(107,835)
Bonded Debt	<u>(7,580,000)</u>
Net Assets Of Governmental Activities	<u>\$ 14,643,570</u>
	14,643,570

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Occupational Tax Fund
REVENUES				
Taxes	\$ 2,411,106	\$	\$	\$
In Lieu Tax Payments	448,854			
Excess Fees	345,140			
Licenses and Permits	101,317			
Intergovernmental	547,195	1,639,993	1,054,419	
Charges for Services	568,090	36,061	24,030	
Miscellaneous	175,352	11,008	69,805	252
Interest	10,436	7,042	2,957	2,425
Total Revenues	<u>4,607,490</u>	<u>1,694,104</u>	<u>1,151,211</u>	<u>2,677</u>
EXPENDITURES				
General Government	1,992,368			33,538
Protection to Persons and Property	646,186		1,172,200	
General Health and Sanitation	123,465			400,000
Social Services	461,308			
Recreation and Culture	91,181			577,447
Roads		1,320,998		1,589,338
Debt Service	10,943			
Capital Projects	95,900			
Administration	2,074,917	135,803	163,962	41,821
Total Expenditures	<u>5,496,268</u>	<u>1,456,801</u>	<u>1,336,162</u>	<u>2,642,144</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(888,778)</u>	<u>237,303</u>	<u>(184,951)</u>	<u>(2,639,467)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	800,000			2,400,000
Transfers To Other Funds				
Total Other Financing Sources (Uses)	<u>800,000</u>			<u>2,400,000</u>
Net Change in Fund Balances	(88,778)	237,303	(184,951)	(239,467)
Fund Balances - Beginning (Restated)	1,046,324	146,666	261,591	360,260
Fund Balances - Ending	<u>\$ 957,546</u>	<u>\$ 383,969</u>	<u>\$ 76,640</u>	<u>\$ 120,793</u>

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Occupational Tax Administrator Fund	Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$ 3,468,791	\$	\$	\$ 308,190	\$ 6,188,087
				448,854
				345,140
				101,317
	227,858	261,608	65,649	3,796,722
				628,181
			1,411	257,828
16,010	61	49,387	7,406	95,724
<u>3,484,801</u>	<u>227,919</u>	<u>310,995</u>	<u>382,656</u>	<u>11,861,853</u>
241,731		74,819		2,342,456
			331,512	2,149,898
			18,840	542,305
				461,308
				668,628
				2,910,336
	624,238	2,000		637,181
				95,900
			46,935	2,463,438
<u>241,731</u>	<u>624,238</u>	<u>76,819</u>	<u>397,287</u>	<u>12,271,450</u>
3,243,070	(396,319)	234,176	(14,631)	(409,597)
	396,253			3,596,253
<u>(3,200,000)</u>	<u></u>	<u>(396,253)</u>	<u></u>	<u>(3,596,253)</u>
<u>(3,200,000)</u>	<u>396,253</u>	<u>(396,253)</u>	<u></u>	<u></u>
43,070	(66)	(162,077)	(14,631)	(409,597)
2,063,968	17,402	1,869,079	732,058	6,497,348
<u>\$ 2,107,038</u>	<u>\$ 17,336</u>	<u>\$ 1,707,002</u>	<u>\$ 717,427</u>	<u>\$ 6,087,751</u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

MARSHALL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (409,597)
--	--------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Book Value of Disposed Assets	(12,955)
-------------------------------	----------

Capital Outlay	1,685,385
----------------	-----------

Depreciation Expense	(634,670)
----------------------	-----------

Notes receivable principal received is receipted in the Governmental Funds as source of current financial resources.	(8,000)
--	---------

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations	2,422
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Bond Payments	215,000
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Change in Net Assets of Governmental Activities	\$ 837,585
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MARSHALL COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

MARSHALL COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 84,909
Total Current Assets	84,909
Net Assets	
Unrestricted	84,909
Total Net Assets	\$ 84,909

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 10,624
Total Operating Revenues	<u>10,624</u>
Operating Expenses	
Educational and Recreational	<u>5,975</u>
Total Operating Expenses	<u>5,975</u>
Operating Income	<u>4,649</u>
Nonoperating Revenues	
Interest Income	<u>84</u>
Total Nonoperating Revenues	<u>84</u>
Change In Net Assets	4,733
Total Net Assets - Beginning	<u>80,176</u>
Total Net Assets - Ending	<u><u>\$ 84,909</u></u>

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MARSHALL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Enterprise Fund <hr/> Jail Canteen Fund <hr/>
Cash Flows From Operating Activities	
Canteen Commissions	\$ 10,624
Educational and Recreational	<hr/> (5,975)
Net Cash Provided By Operating Activities	<hr/> 4,649 <hr/>
Cash Flows From Investing Activities	
Interest Earned	<hr/> 84
Net Cash Provided By Investing Activities	<hr/> 84 <hr/>
Net Increase in Cash and Cash Equivalents	4,733
Cash and Cash Equivalents - July 1, 2003	<hr/> 80,176 <hr/>
Cash and Cash Equivalents - June 30, 2004	<hr/> \$ 84,909 <hr/>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	<hr/> \$ 4,649 <hr/>
Net Cash Provided By Operating Activities	<hr/> \$ 4,649 <hr/>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term liabilities are recorded on the statement of net assets and include bonds and financing obligations. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Marshall County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Audited financial statements for the Marshall County Refuse Disposal District, a discretely presented component unit, may be requested by contacting the Marshall County Treasurer, 1101 Main, P.O. Box 114, Benton, Kentucky, 42025.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Marshall County Public Properties Corporation

The Marshall County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended with Marshall County's financial statements

Discretely Presented Component Unit

The component unit's columns in the combined financial statements include the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize the organization's separateness from the fiscal court's primary government.

Marshall County Refuse Disposal District

The Marshall County Fiscal Court appoints a voting majority of the Marshall County Refuse Disposal District governing board. The fiscal court is financially accountable and legally obligated for the debt of the refuse district. Financial information for the refuse district is presented discretely within Marshall County's financial statements.

C. Marshall County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Marshall County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These officials are not part of the Marshall County reporting entity.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Occupational Tax Fund – The primary purpose of this fund is to account for the disbursement of occupational tax funds. The primary source of revenue for this fund is transfers from the Occupational Tax Administrator Fund.

Occupational Tax Administrator Fund – This fund is used to account for occupational tax revenues. Occupational tax revenues are recorded in this fund and then transferred to the Occupational Tax Fund.

Public Properties Corporation Justice Center Debt Service Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of Public Properties Corporation, a blended component unit of the fiscal court.

Public Properties Corporation Justice Center Capital Projects Fund – The purpose of this fund is to account for the construction activities of the Public Properties Corporation, a blended component unit of the fiscal court.

The government also has the following non-major funds: Federal Grant Fund, Emergency 911 Fund, and Wireless 911 Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise funds are commissions on customers' sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Marshall County Fiscal Court: Marshall County Hospital, Jonathan Creek Water District, Aurora Sewer District, Marshall County Library, North Marshall Water District, Draffenville Sewer District, and Marshall County Cemetery Board.

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the following are considered jointly governed organizations of the Marshall County Fiscal Court: Purchase Area Industrial Authority Incorporated; Marshall County-Calvert City Riverport Authority; and Industrial Development Authority.

Note 2. Deposits and Investments

A. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government and component unit's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

	Category			Carrying	Market
Investments	1	2	3	Amount	Value
Primary Government:					
Governmental					
Securities	\$ 676,386	\$	\$	\$ 676,386	\$ 676,386

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,757,781	\$ 89,933	\$	\$ 1,847,714
Total Capital Assets Not Being Depreciated	1,757,781	89,933		1,847,714
Capital Assets, Being Depreciated:				
Buildings	13,967,564	106,874		14,074,438
Vehicles and Equipment	3,709,233	339,414	(125,697)	3,922,950
Infrastructure		1,149,164		1,149,164
Total Capital Assets Being Depreciated	17,676,797	1,595,452	(125,697)	19,146,552
Less Accumulated Depreciation For:				
Buildings	(2,268,234)	(233,051)		(2,501,285)
Vehicles and Equipment	(1,991,449)	(290,785)	112,741	(2,169,493)
Infrastructure		(110,834)		(110,834)
Total Accumulated Depreciation	(4,259,683)	(634,670)	112,741	(4,781,612)
Total Capital Assets, Being Depreciated, Net	13,417,114	960,782	(12,956)	14,364,940
Governmental Activities Capital Assets, Net	\$ 15,174,895	\$ 1,050,715	\$ (12,956)	\$ 16,212,654

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 199,423
Protection to Persons and Property	128,315
General Health and Sanitation	1,274
Recreation and Culture	27,267
Roads, Including Depreciation of General Infrastructure Assets	<u>278,391</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 634,670</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit for the year ended June 30, 2004 was as follows:

Discretely Presented Component Unit:	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Land and Land Improvements	\$ 805,287	\$	\$	\$ 805,287
Buildings	161,957			161,957
Vehicles and Equipment	824,043	43,733		867,776
Total Capital Assets Being Depreciated	1,791,287	43,733		1,835,020
Less Accumulated Depreciation For:				
Land and Land Improvements	(76,529)	(19,132)		(95,661)
Buildings	(26,695)	(3,014)		(29,709)
Vehicles and Equipment	(388,120)	(63,935)		(452,055)
Total Accumulated Depreciation	(491,344)	(86,081)		(577,425)
Capital Assets, Net	\$ 1,299,943	\$ (42,348)	\$ 0	\$ 1,257,595

Depreciation expense was charged to functions of the discretely presented component unit as follows:

Marshall County Refuse Disposal District	<u>\$ 86,081</u>
Total Depreciation Expense - Discretely Presented Component Unit	<u>\$ 86,081</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)

Note 4. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2000

The Marshall County Public Properties Corporation entered into a bond issue on October 1, 2000, for the purpose of paying the cost of constructing a new county justice center facility and the cost of the issuance of the bonds. The issue amount of the bonds was \$8,005,000. The Administrative Office of the Courts (AOC) are responsible for 74 percent of the cost of the bonds. The Public Properties Corporation is responsible for the remaining balance of the cost. The outstanding balance as of June 30, 2004, was \$7,580,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 235,000	\$ 397,950
2006	245,000	385,612
2007	265,000	372,750
2008	275,000	358,837
2009	285,000	344,400
2010-2014	1,705,000	1,478,400
2015-2019	2,255,000	976,500
2020-2023	2,315,000	312,112
Totals	<u>\$ 7,580,000</u>	<u>\$ 4,626,561</u>

B. Marshall County Caring/Needline Building

On July 3, 2002, Marshall County Fiscal Court entered into a promissory note agreement with the Bank of Benton for the purchase of an office building. The principal amount was \$114,200 at an effective interest rate of 6.5 percent interest for a period of twenty years. In return, Marshall County leased the building to the Marshall County Caring/Needline. After an initial payment of \$50,000, which was used as a down payment on the purchase of the property, the Marshall County Caring/Needline has agreed to pay Marshall County Fiscal Court rental payments in amounts equal to the annual loan payments as stipulated in a lease agreement dated July 3, 2002. Upon the retirement of the debt, Marshall County Fiscal Court agrees to transfer the property to the Marshall County Caring/Needline. The outstanding balance of the note as of June 30, 2004 was \$107,835. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$	\$ 303
2006	2,953	7,130
2007	3,531	6,912
2008	3,763	6,679
2009	3,994	6,449
2010-2014	24,367	27,847
2015-2019	33,530	18,684
2020-2023	35,697	6,074
Totals	<u>\$ 107,835</u>	<u>\$ 80,078</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 7,795,000	\$	\$ 215,000	\$ 7,580,000	\$ 235,000
Financing Obligations	110,257		2,422	107,835	
Governmental Activities					
Long-term Liabilities	<u>\$ 7,905,257</u>	<u>\$ 0</u>	<u>\$ 217,422</u>	<u>\$ 7,687,835</u>	<u>\$ 235,000</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$8,520 in interest on financing obligations and \$409,238 in interest on bonds.

Note 6. Receivables

A. Elva/New Harmony/Oak Level Fire District

The County loaned \$30,000 to Elva/New Harmony/Oak Level Fire District on July 21, 1999, for the purpose of renovating the Fire Department. Terms of the agreement stipulate a 12-year repayment schedule, interest free. The Fire District is in substantial compliance with the terms of the agreement. As of June 30, 2004, the principal balance due was \$25,000.

B. Fairdealing Fire District

The County loaned \$30,000 to the Fairdealing Fire District on January 11, 2000, for the purpose of renovating the Fire Department. Terms of this agreement stipulated a 12-year repayment schedule, interest free. The Fire Department is in substantial compliance with the terms of the agreement. As of June 30, 2004, the principal balance due was \$6,000.

Note 7. Related Party Transactions

A. Timber Bridge Company

During the fiscal year, the County conducted business with the Timber Bridge Company of Kentucky for bridge materials. In November 2003, the County Judge/Executive filed a Statement of Financial Disclosure with the Marshall County Ethics Commission stating that he was employed as a salesman for Timber Bridge, and earned in excess of \$5,000 during the preceding calendar year. A letter dated August 17, 2001, from Timber Bridge Company of Kentucky, confirming its ongoing agreement with the County Judge/Executive, states that the County Judge/Executive is not due any commissions on sales in Marshall County. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

Note 7. Related Party Transactions (Continued)

B. Bank of Benton

During the fiscal year, the County maintained deposits with the Bank of Benton. In November 2003, the County Judge/Executive filed a Statement of Financial Disclosure with the Marshall County Ethics Commission stating that he owned an interest of at least \$10,000 in the Bank of Benton, and earned in excess of \$5,000 during the preceding calendar year from this interest. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.

Note 8. Employee Retirement System

The county and the Marshall County Refuse Disposal District, a discretely presented component unit, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2004, Marshall County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Landfill Closure and Postclosure Costs

In 2002, the legislature passed House Bill No. 174 that among other things, provided for state assumption of responsibility for the costs of closure and remedial obligations for inactive solid waste landfills that ceased accepting waste prior to July 1, 1992. This implemented as amendments to KRS 244, Subchapter 43. The Kentucky Division of Waste Management (Division) has determined that the Marshall County Landfill qualifies under this program for state assistance. However, as a necessary condition for performing this work, the Division required a legal right of entry granting permission for assessment and construction activities on the subject property. On February 8, 2005, the Marshall County Judge/Executive signed the right of entry to the Commonwealth of Kentucky and it's authorized agents for the purpose of performing such activities.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)

Note 11. Changes in Accounting Principles and Prior Period Adjustment

The county has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The beginning net asset balance for governmental activities was \$13,717,460 for an increase of \$7,322,148 that was due to \$7,269,637 invested in capital assets, net of related debt previously not reported, \$39,000 notes receivable previously not reported, and \$13,511 prior year voided checks. The beginning fund balance was \$6,408,823 for an increase of \$13,511 due to \$13,511 prior year voided checks.

Note 12. Infrastructure Cost

The Fiscal Court recorded infrastructure cost beginning in the current fiscal year ended June 30, 2004.

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MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,115,000	\$ 2,115,000	\$ 2,411,106	\$ 296,106
In Lieu Tax Payments	363,000	363,000	448,854	85,854
Excess Fees	164,456	344,456	345,140	684
Licenses and Permits	130,000	130,000	101,317	(28,683)
Intergovernmental Revenue	561,600	561,600	547,195	(14,405)
Charges for Services	270,000	350,000	568,090	218,090
Miscellaneous	73,944	73,944	175,352	101,408
Interest	12,000	12,000	10,436	(1,564)
Total Revenues	<u>3,690,000</u>	<u>3,950,000</u>	<u>4,607,490</u>	<u>657,490</u>
EXPENDITURES				
General Government	2,006,019	2,344,719	1,992,368	352,351
Protection to Persons and Property	339,451	485,451	646,186	(160,735)
General Health and Sanitation	101,000	156,100	123,465	32,635
Social Services	409,600	474,200	461,308	12,892
Recreation and Culture	14,430	91,430	91,181	249
Debt Service	206,500	58,100	10,943	47,157
Capital Projects	80,000	96,000	95,900	100
Administration	1,733,000	1,994,000	2,074,917	(80,917)
Total Expenditures	<u>4,890,000</u>	<u>5,700,000</u>	<u>5,496,268</u>	<u>203,732</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,200,000)</u>	<u>(1,750,000)</u>	<u>(888,778)</u>	<u>861,222</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>	
Total Other Financing Sources (Uses)	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>	
Net Changes in Fund Balance	(400,000)	(950,000)	(88,778)	861,222
Fund Balance - Beginning	<u>400,000</u>	<u>950,000</u>	<u>957,799</u>	<u>7,799</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 869,021</u>	<u>\$ 869,021</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 937,825	\$ 1,579,825	\$ 1,639,993	\$ 60,168
Charges for Services	4,000	4,000	36,061	32,061
Miscellaneous	7,195	7,195	11,008	3,813
Interest	8,000	8,000	7,042	(958)
Total Revenues	957,020	1,599,020	1,694,104	95,084
EXPENDITURES				
Roads	1,011,675	1,388,775	1,320,998	67,777
Administration	145,345	410,245	135,803	274,442
Total Expenditures	1,157,020	1,799,020	1,456,801	342,219
Excess (Deficiency) of Revenues Over Expenditures	(200,000)	(200,000)	237,303	437,303
Net Changes in Fund Balance	(200,000)	(200,000)	237,303	437,303
Fund Balance - Beginning	200,000	200,000	146,666	(53,334)
Fund Balance - Ending	\$ 0	\$ 0	\$ 383,969	\$ 383,969

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,073,806	\$ 1,073,806	\$ 1,054,419	\$ (19,387)
Charges for Services	16,000	16,000	24,030	8,030
Miscellaneous	39,194	39,194	69,805	30,611
Interest	5,000	5,000	2,957	(2,043)
Total Revenues	<u>1,134,000</u>	<u>1,134,000</u>	<u>1,151,211</u>	<u>17,211</u>
EXPENDITURES				
Protection to Persons and Property	1,270,000	1,269,000	1,172,200	96,800
Administration	164,000	165,000	163,962	1,038
Total Expenditures	<u>1,434,000</u>	<u>1,434,000</u>	<u>1,336,162</u>	<u>97,838</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(300,000)</u>	<u>(300,000)</u>	<u>(184,951)</u>	<u>115,049</u>
Net Changes in Fund Balance	(300,000)	(300,000)	(184,951)	115,049
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>261,591</u>	<u>(38,409)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 76,640</u>	<u>\$ 76,640</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$	\$	\$ 252	\$ 252
Interest	5,000	5,000	2,425	(2,575)
Total Revenues	\$ 5,000	\$ 5,000	\$ 2,677	\$ (2,323)
EXPENDITURES				
General Government	\$ 33,338	\$ 37,438	\$ 33,538	\$ 3,900
General Health and Sanitation	400,000	400,000	400,000	
Recreation and Culture	469,800	583,800	577,447	6,353
Roads	1,840,000	1,721,900	1,589,338	132,562
Administration	46,862	46,862	41,821	5,041
Total Expenditures	2,790,000	2,790,000	2,642,144	147,856
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,785,000)	(2,785,000)	(2,639,467)	145,533
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,400,000	2,400,000	2,400,000	
Total Other Financing Sources (Uses)	2,400,000	2,400,000	2,400,000	
Net Changes in Fund Balances	(385,000)	(385,000)	(239,467)	145,533
Fund Balances - Beginning	385,000	385,000	360,260	(24,740)
Fund Balances - Ending	\$ 0	\$ 0	\$ 120,793	\$ 120,793

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

OCCUPATIONAL TAX ADMINISTRATOR FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,200,000	\$ 3,200,000	\$ 3,468,791	\$ 268,791
Interest	10,000	10,000	16,010	6,010
Total Revenues	3,210,000	3,210,000	3,484,801	274,801
EXPENDITURES				
General Government		270,000	241,731	28,269
Administration	1,000,000	730,000		730,000
Total Expenditures	1,000,000	1,000,000	241,731	758,269
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	2,210,000	2,210,000	3,243,070	1,033,070
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(3,200,000)	(3,200,000)	(3,200,000)	
Total Other Financing Sources (Uses)	(3,200,000)	(3,200,000)	(3,200,000)	
Net Changes in Fund Balances	(990,000)	(990,000)	43,070	1,033,070
Fund Balances - Beginning	990,000	990,000	2,063,968	1,073,968
Fund Balances - Ending	\$ 0	\$ 0	\$ 2,107,038	\$ 2,107,038

MARSHALL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MARSHALL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

MARSHALL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Federal Grant Fund	Emergency 911 Fund	Wireless 911 Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 312,900	\$ 244,819	\$ 159,708	\$ 717,427
Total Assets	<u>\$ 312,900</u>	<u>\$ 244,819</u>	<u>\$ 159,708</u>	<u>\$ 717,427</u>
FUND BALANCES				
Unreserved:				
Special Revenue Fund Types	<u>\$ 312,900</u>	<u>\$ 244,819</u>	<u>\$ 159,708</u>	<u>\$ 717,427</u>
Total Fund Balances	<u>\$ 312,900</u>	<u>\$ 244,819</u>	<u>\$ 159,708</u>	<u>\$ 717,427</u>

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MARSHALL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

MARSHALL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Federal Grant Fund	Emergency 911 Fund	Wireless 911 Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$ 308,190	\$	\$ 308,190
Intergovernmental			65,649	65,649
Miscellaneous		1,411		1,411
Interest	3,438	3,968		7,406
Total Revenues	<u>3,438</u>	<u>313,569</u>	<u>65,649</u>	<u>382,656</u>
EXPENDITURES				
Protection to Persons and Property		282,250	49,262	331,512
General Health and Sanitation	18,840			18,840
Administration		46,935		46,935
Total Expenditures	<u>18,840</u>	<u>329,185</u>	<u>49,262</u>	<u>397,287</u>
Excess (deficiency) of Revenues Over Expenditures	<u>(15,402)</u>	<u>(15,616)</u>	<u>16,387</u>	<u>(14,631)</u>
Net Change in Fund Balances	(15,402)	(15,616)	16,387	(14,631)
Fund Balances - Beginning	328,302	260,435	143,321	732,058
Fund Balances - Ending	<u>\$ 312,900</u>	<u>\$ 244,819</u>	<u>\$ 159,708</u>	<u>\$ 717,427</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 6, 2005. We did not audit the financial statements of the Marshall County Refuse Disposal District. Other auditors whose reports have been furnished to us audited those financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marshall County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Marshall County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 6, 2005

